

**REPORT OF THE AUDIT OF THE
CLAY COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES**

**For The Period
July 2, 2008 Through July 1, 2009**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
CLAY COUNTY
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period
July 2, 2008 Through July 1, 2009

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2008 Taxes for Clay County Sheriff for the period July 2, 2008 through July 1, 2009. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$3,696,942 for the districts for 2008 taxes, retaining commissions of \$152,362 to operate the Sheriff's office. The Sheriff distributed taxes of \$3,542,470 to the districts for 2008 taxes. Taxes of \$2 are due to the districts from the Sheriff and refunds of \$50 are due to the Sheriff from the taxing districts.

Report Comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Carl E. Sizemore, Clay County Judge/Executive

Honorable Kevin Johnson, Clay County Sheriff

Members of the Clay County Fiscal Court

Independent Auditor's Report

We have audited the Clay County Sheriff's Settlement - 2008 Taxes for the period July 2, 2008 through July 1, 2009. This tax settlement is the responsibility of the Clay County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Clay County Sheriff's taxes charged, credited, and paid for the period July 2, 2008 through July 1, 2009, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated June 17, 2010 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Carl E. Sizemore, Clay County Judge/Executive
Honorable Kevin Johnson, Clay County Sheriff
Members of the Clay County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

June 17, 2010

CLAY COUNTY
KEVIN JOHNSON, SHERIFF
SHERIFF'S SETTLEMENT - 2008 TAXES

For The Period July 2, 2008 Through July 1, 2009

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 240,737	\$ 510,362	\$ 1,592,074	\$ 391,599
Tangible Personal Property	23,098	68,863	156,450	105,653
Fire Protection	3,688			
Franchise Taxes	40,247	108,788	269,036	
Additional Billings	312	658	2,059	508
Unmined Coal - Omitted Prior Years	252	385	1,526	440
Unmined Coal - 2008 Taxes	2,786	5,952	18,427	4,532
Oil and Gas Property Taxes	35,147	3,845	11,993	2,950
Current & Prior Year Franchise		70,668	220,446	54,223
Penalties	4,002	8,439	26,195	6,246
Adjusted to Sheriff's Receipt	(129)	(17)	(67)	(25)
Gross Chargeable to Sheriff	350,140	777,943	2,298,139	566,126
<u>Credits</u>				
Exonerations	4,704	10,064	31,128	8,110
Discounts	4,105	9,092	26,977	7,369
Delinquents:				
Real Estate	14,076	29,506	92,048	22,642
Tangible Personal Property	1,096	3,268	7,424	10,273
Unmined Coal - 2008 Taxes	670	1,420	4,429	1,089
Franchise Taxes				
Current Year Delinquent	212	630	1,434	
Current Year Uncollected	338	1,007	2,288	
Prior Year Delinquent		2	5	
Total Credits	25,201	54,989	165,733	49,483
Taxes Collected	324,939	722,954	2,132,406	516,643
Less: Commissions *	14,097	30,724	85,296	22,245
Taxes Due	310,842	692,230	2,047,110	494,398
Taxes Paid	310,676	691,835	2,045,871	494,088
Refunds (Current and Prior Year)	192	398	1,255	313
Due District or (Refunds Due Sheriff) as of Completion of Audit	\$ (26)	\$ (3)	\$ (16)	\$ (3)

**

* And ** See Next Page.

The accompanying notes are an integral part of this financial statement.

CLAY COUNTY
 KEVIN JOHNSON, SHERIFF
 SHERIFF'S SETTLEMENT - 2008 TAXES
 For The Period July 2, 2008 Through July 1, 2009
 (Continued)

Commission:

10% on	\$	10,000
4.25% on	\$	1,554,536
4% on	\$	2,132,406

** Special Taxing Districts:

Library District	\$	(1)
Health District		(2)
Extension District		(1)
Soil Conservation District		(1)
City of Manchester		<u>2</u>

Due District or (Refunds Due Sheriff)	\$	<u><u>(3)</u></u>
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CLAY COUNTY
NOTES TO FINANCIAL STATEMENT

July 1, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Clay County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

CLAY COUNTY
NOTES TO FINANCIAL STATEMENT
July 1, 2009
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Clay County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of July 1, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2008. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2009. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 24, 2008 through July 1, 2009.

B. Unmined Coal Taxes

The unmined coal tax assessments were levied as of January 1, 2008. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was February 20, 2009 through July 1, 2009.

Note 4. Interest Income

The Clay County Sheriff earned \$1,257 as interest income on 2008 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Clay County Sheriff collected \$37, 119 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Clay County Sheriff collected \$5,085 of advertising costs and \$1,120 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Carl E. Sizemore, Clay County Judge/Executive
Honorable Kevin Johnson, Clay County Sheriff
Members of the Clay County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Clay County Sheriff's Settlement - 2008 Taxes for the period July 2, 2008 through July 1, 2009, and have issued our report thereon dated June 17, 2010. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Clay County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Clay County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Clay County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Clay County Sheriff's Settlement - 2008 Taxes for the period July 2, 2008 through July 1, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Clay County Sheriff's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Clay County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

June 17, 2010

COMMENT AND RECOMMENDATION

CLAY COUNTY
KEVIN JOHNSON, SHERIFF
COMMENT AND RECOMMENDATION

For The Period July 2, 2008 Through July 1, 2009

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY & MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

While reviewing the internal controls of the Sheriff's tax collection procedures, we identified that the Sheriff's office lacks of adequate segregation of duties over receipts, disbursements, and reconciliation procedures. One full-time and two part-time clerks were responsible for opening the mail, accepting tax payments, recording payments in the computer, and reconciling his/her own daily payment journal to payments received and duplicate receipts. Additionally, the Sheriff's bookkeeper performed the tax collection procedures noted above and was responsible for posting to the receipts and disbursements ledger, preparing monthly reports, preparing and co-signing disbursement checks, preparing the monthly bank reconciliation, and compiling the Sheriff's final settlement.

The Sheriff has implemented compensating controls such as randomly verifying the accuracy of deposits, comparing the daily checkout to the general ledger and comparing the general ledger to the bank records. These controls were evidenced by the Sheriff's initials the deposit slip, bank statement and general ledger.

While it may not be practical to segregate duties because of the Sheriff's limited staff size and budget restrictions, we recommend the Sheriff assign related activities to different individuals or implement additional compensating controls to mitigate the effects of the lack of adequate segregation of duties.

Sheriff's Response: Progress has been made since 2008. The Sheriff or deputy now counts cash and initials deposit slip, checks bank statements with bank reconciliation and ledgers and initials each report. Also, Sheriff or deputy checks bank deposit log sheet daily for accuracy to make sure the deposit slip agrees with everything.

